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SENSITIVE BUT UNCLASSIFIED
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DOE FOR GPERSON, CGAY, TSPERL

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SUBJECT: SOUTH AFRICA MUNICIPAL ELECTRICITY DISTRIBUTORS IN
POOR SHAPE SAYS ENERGY REGULATOR

REF: PRETORIA 00373

11. (SBU) Summary. The National Energy Regulator of South Africa (NERSA) found in a technical audit that municipal electricity distributors have under-funded infrastructure development, lack skilled staff and can not deliver the quality of supply required of them. The audit found that electricity infrastructures of smaller municipalities are generally in a poor state of repair. Larger municipalities and non-municipal distributors fared better in the audit. The electricity distributors would need to spend R422 million (\$61 million) million per year to maintain service levels and spend an additional \$431 million (\$62 million) to remove infrastructure backlogs that have caused costly, numerous and severe power outages throughout the country. End Summary.

2, (SBU) In the wake of power outages in 2005, NERSA ordered an external technical audit of the country's eleven largest electricity distributors. Nine of the eleven distributors were municipalities which buy electricity wholesale and resell it through distribution networks which they own and operate. The remaining two distributors are operated by Eskom, South Africa's parastatal electricity provider. Approximately 95% of the country's electricity is generated by Eskom which sells electricity to the municipalities. (Note: Audit objectives were to assess the condition of network substations, and to determine the effectiveness of maintenance, refurbishment, expansion and operations. The audit report was given to NERSA management in May 2006 but was not publicly released by NERSA until May 2007. End Note.)

13. (SBU) Eskom's Southern and Northwest regions received high marks in the audit for management, maintenance, refurbishment, staffing and technical expertise. Larger municipal networks such as Pretoria, Cape Town and Durban were found to be well-designed and installed but suffering from lack of investment and the loss of skilled staff. The audit found that smaller municipalities are heavily under-resourced, lack technical and maintenance management and are not meeting basic electricity distribution requirements. (Note. Last year NERSA conducted a separate technical audit of Johannesburg's City Power electricity distribution network and found insufficient funds for maintenance and refurbishment, and a technical staff shortage. End Note.)

14. (SBU) NERSA estimates that an annual expenditure of R422 million (\$61 million) is required to maintain present service levels. An additional R431 million (\$62 million) will be required to eliminate an infrastructure refurbishment backlog for the eleven distributors. NERSA plans to make recommendations to government on corrective measures to address audit findings and to motivate funding for the

infrastructure backlog. An additional technical audit of Eskom's Transmission Division began in January 2007 and a report is in the final stage.

15. (SBU) Comment. The country's combined lack of reliable generation capacity, limited transmission capacity and poor municipal distribution infrastructure has harmed business which suffers from prolonged and frequent power outages in various parts of the country. Following the 2005 power outages which motivated NERSA to perform the technical audit of electricity distributors, the country suffered severe outages in December 2006, January 2007 and again this month (reftel) caused by major losses of generation capacity due to technical problems at power plants. According to the government's 2006 annual report on ASGISA (Accelerated and Shared Growth Initiative, SA), "the economic cost of worsening national power interruptions and inefficiencies due to poor infrastructure is estimated to be between R2.9 billion (\$420 million) and R8.6 billion (\$1.24 billion) annually, while the maintenance backlog is over R5 billion (\$724 million)". The growing prospect of future power interruptions has also led to a boom in the purchase of private generators for industrial, commercial and residential use. End Comment.
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